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SIR EDWARD CLAYTON

Secretary of the Senate

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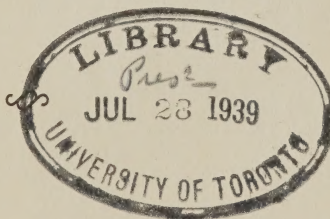
(The Senate of Canada)



(SPECIAL COMMITTEE)

Appointed to

Enquire into and Report upon the Best Means
of Relieving the Country from its Extremely Serious
Railway Condition and Financial Burden
Consequent Thereto.



SUBMISSION BY
Wentworth
SIR EDWARD BEATTY *(1877-)*
Chairman and President
Canadian Pacific Railway Company

[1938?]

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SUBMISSION BY

SIR EDWARD BEATTY

Chairman and President, Canadian Pacific Railway Company

HONOURABLE MEMBERS OF THE COMMITTEE:

It is not my intention to take your time for any lengthy discussion of the events which led to the situation which your Committee has been appointed to examine. On the other hand, you may permit me, in order to facilitate my approach to the questions before you, to recite, briefly, certain historic facts.

HISTORY:

The Canadian Pacific Railway Company is not a corporation of an ordinary type. It is an institution created, to carry out a national purpose, by the joint action of the Government of Canada and private investors appealed to by that Government to assist it in fulfilling the terms of that other contract on which the existence of the Dominion as a nation depends.

You are all familiar, I assume, with the history of the circumstances in which the Canadian Pacific Railway was constructed. In order to obtain the union of the scattered Colonies of British North America, a contract was undertaken between their Governments, and part of that contract involved the construction of two railway systems. One was to connect the Maritime Provinces with Central Canada—using for that purpose a route which, to be entirely on Canadian soil, must, of necessity, be somewhat uneconomic. It was agreed that that railway should be constructed at the public expense, and the Intercolonial was thus built.

The other necessary railway project was one to connect Central Canada—and, through the Intercolonial, the Maritime Provinces—with the Province of British Columbia.

The history of this project may be summed up quite simply. The Government of Canada undertook to construct it as a public work, but, unfortunately, difficulties of construction and the resulting cost soon made it appear that the task might be one which might overburden the finances of a young nation and be so long drawn out as to defeat its object. So grave did these difficulties become, that the

Government of the day found it necessary to abandon this form of project, and to invite private interests to participate in the work.

As you are aware, the original railway system of Canada was the Grand Trunk—a corporation financed in England, which, in obtaining a convenient route between the Middle West of the United States and the American seaboard, had found it advisable to pass over Canadian soil, and which, in this somewhat indirect fashion, became an important factor in transportation in the present Provinces of Ontario and Quebec. That Company was offered the right to participate in constructing a transcontinental railway system. Because its proprietors did not believe that such a project would be economical, if the line were constructed entirely on Canadian soil, the Grand Trunk refused the invitation, and, indeed, used its great influence in the financial markets of England to discredit any possibility of success for a company whose lines were constructed entirely on the soil of the Dominion.

The Dominion Government, regarding this condition as an essential of the construction of a national transcontinental railway, abandoned negotiations with the Grand Trunk, and succeeded in inducing a group of Canadian business men to undertake the rash adventure of building a railway from Montreal to the mouth of the Fraser River.

It is thus a fact that the Canadian Pacific Railway is the first and most vital of all the public works of the Dominion of Canada. Its relations with the Government were established by a formal contract, and while details of the terms of that instrument have been varied from time to time, the Company holds, as both a right and an obligation, the status of a public enterprise constructed primarily to assure the country adequate transportation facilities. It was quite realized by the Government of the day that private capital used for this purpose was entitled to make legitimate profit. Indeed, there is no better evidence of this than that the Government agreed to transfer to the syndicate the completed portions of the railway, a sum of

money in cash and certain Crown lands—not as a gift, but as a condition of a contract.

At the time that this transaction was undertaken the only comment made was concerning the rash spirit in which the syndicate had undertaken its obligations. Fortunately for them, and for the Dominion, the adventure proved one of modest profit, and the syndicate, through its successors, the Canadian Pacific Railway, has been able to fulfil the onerous obligations which it undertook, not only up to the letter of the contract, but far beyond that.

It is not my intention, if your Honourable Committee will permit, to explore any further than this the causes which have led to the existing railway problem, and to my attempt to offer a solution. With your consent I should like to confine my evidence to explaining the origin, the nature and the effects of the solution which I suggest.

THE SHAUGHNESSY PLAN:

As you are aware, the first formal suggestion made, on behalf of the Canadian Pacific Railway, looking to unified operation of the two railway systems, was that made by the first Lord Shaughnessy in a memorandum addressed to the Government on April 16th, 1921. At that time the country was just emerging from the primary effects of the Great War and the economic outlook was wholly unsettled. The suggestion was substantially that the Canadian Pacific Railway lines should be transferred to ownership of the Government; that the Government would, as a *quid pro quo*, agree to guarantee a fixed annual dividend to the shareholders of the Canadian Pacific in perpetuity. There was the further suggestion that, in order to avoid any danger of political interference, the Canadian Pacific Railway should be given a contract to operate the combined systems.

THE SENATE COMMITTEE, 1925:

In 1925 a Committee of your House was appointed to consider the question anew, and in due course a report was prepared and recommendations were made that the two railway systems should be merged for purposes of administration and operation under the direction of a Board of fifteen directors—five named by the Canadian Pacific Railway, five named by the Government, and five chosen by the first ten; that the Canadian National Railways be recapitalized; that the Canadian Pacific Railway be guaranteed an agreed dividend on its stock, and that, in the event of a surplus being earned, a dividend at the same rate as paid to the Canadian Pacific Railway be paid to the Government on the

new capitalization of the Government railways. After the payment of these dividends, any surplus would be divided between the Canadian Pacific and Canadian National Railways, in proportion to the valuation of the two systems. This Report was concurred in by your Honourable House.

The year 1925 happened to be that in which a temporary return of prosperity to the world produced conditions in which the pressure of the railway problem was forgotten. It ushered in the period in which the Government authorized very large expenditures upon its railway activities.

THE ROYAL COMMISSION, 1931-2:

By 1931 depressed conditions of business made it clear that a railway problem still existed, and, in discussing this matter with the late Sir Henry Thornton, I suggested to him that he should propose a Royal Commission to investigate means for providing relief for railway losses. The result was the Royal Commission to Inquire into Railways and Transportation in Canada.

This Royal Commission brought in a Report—to my surprise, in view of the trend of the investigation—in which the idea of unification was set aside on the ground that the time was not opportune. It is well known—indeed, it is indicated in the Report—that opinion of the Commission was divided. The country had only lately experienced the onset of depression, and, in 1932, it was not unusual to hear the suggestion made that, within a year or two, the Dominion would enter on an even greater period of expansion and prosperity than it had ever experienced. It was, indeed, not unusual to find those who really hoped at that time that improving business conditions would soon place the Canadian National Railways on a sound earning basis.

In the circumstances the Royal Commission recommended the establishment of a system providing for more or less enforced co-operation between the railway companies.

I ask your Honourable Committee to note that the suggestion so often made to the effect that the Royal Commission condemned unification is not correct. Some members of the Commission—in the words of the Report—"Would have preferred a plan which would have established a complete dissociation of the Government of Canada from the responsibilities of competitive railway management, or of any direct interest therein." The Report was frankly a compromise, and it was made because the Commission hoped that it would, in their words, "afford early relief to the Federal Treasury." In addition, the Commission said "We feel compelled, as a matter of public duty, to strike a serious note of

warning to the people of Canada. Unless the country is prepared to adopt the plan we have proposed, or some other equally effective measures, to secure the efficient and economical working of both railway systems, and thereby not only reduce the burden on the federal treasury but improve the financial position of the privately-owned railway, then the only courses that would be left would be either to effect savings in national expenditures in other directions, or to add still further to the burdens under which the industries of the country are suffering by the imposition of yet further taxation. Failing the adoption of one or other of these courses, and there are obvious limits to their application, the very stability of the nation's finances and the financial credit of the Canadian Pacific Railway will be threatened, with serious consequences to the people of Canada and to those who have invested their savings in that railway."

In the course of its hearings the Royal Commission heard evidence, among other, from the late Sir Henry Thornton and myself. In preparing this evidence we were both endeavouring to accede to specific requests made by certain members of the Commission, as well as to give evidence along general lines. Sir Joseph Flavelle, for instance, was very anxious to obtain information as to the savings which might result from unified operation of the railway systems.

The then President of the Canadian National stressed several points. One, that, while the depressed business conditions of 1931-1932 had brought the matter to a head, this had merely aggravated existing conditions. Two, that the Canadian railways were, in his opinion, "subsidizing out of their earnings the shippers of grain and grain products of Canada," and that "as far as the Canadian National is concerned" the public "can have low freight rates, unremunerative operation and increased taxes, or they can have higher freight rates, remunerative operation and lower taxes." He stressed especially the fact that the Canadian freight rates are lower than those of the United States. He pointed out particularly that the two competing railways must maintain the same freight rate structure. In the third place, he went on record that the desirable policy would be for the railways "to reach an agreement with each other to divide traffic on some reasonable basis." He argued that "whether times be evil or good, there is never any excuse for waste," and insisted that one of the advantages of the depression was that it would bring home to the railways the necessity of avoiding wasteful competition. Fourthly, he proposed the unification of competitive city ticket offices, the pooling of passenger services,

the co-ordination of freight services, the elimination of duplicate trackage, the consolidation of telegraph companies and hotel systems, the joint use of local facilities and the interchange of trackage rights wherever economical. Finally, its President impressed upon the Commission the difficulties inflicted on the Canadian National Railways by political pressure.

On my own part, I offered the Royal Commission a suggestion which is substantially the same as that which, more fully developed later, has come to be known as unification.

UNIFICATION:

There are merely a few general points which I regard as vital to a plan of railway unification. One is that the two railway companies should continue to own their present properties. It is not my intention to suggest that the Canadian National should be transferred to Canadian Pacific ownership, or the Canadian Pacific to Government ownership. The securities of the companies would remain in their present ownership. No question is involved of the value of the properties, or of any new capital set-up.

Another point is that I have not suggested that any guarantee should be given to the Canadian Pacific of a return on its stock or other capital issues. I say this, because I am convinced that no guarantee of interest on the debenture stock and bonds of the Canadian Pacific will be necessary. As to dividends on the stock, I do not see that it is necessary to give shareholders any protection beyond a reasonable opportunity for the company which they own to earn a reasonable profit.

The third of my fundamental points is that each group of owners should continue to receive under unification the net earnings which past experience indicates their company would have received as an independent institution, and that the additional net earnings made available by unification be shared between them on an equitable basis. I assume that the Government would directly receive at least half of these savings. These details, of course, could only be determined at the time of the formal contract.

My fourth basic theory is that adequate provision should be made to prevent the unified Company from neglecting its duty as a public utility, and depriving any community of necessary railway service. This, of course, can be easily arranged, by adding, if necessary, to the strength and powers of the Board of Railway Commissioners. I may remind you that the Board among its very wide powers today controls the cancellation of trains, the closing of stations and the abandonment of lines.

My fifth, and, in some ways, the most important consideration, is that adequate provision should be made to protect the rights of railway workers. I propose, with your permission, to deal with this particular question at greater length later, but satisfactory precautions of this nature are a prerequisite of the acceptance by the Canadian Pacific Railway Company of any plan of unification.

Since it has been suggested by some of the critics of my plan that I am not sufficiently specific, may I point out that I am convinced that the conditions which I have just outlined are quite specific enough to ensure that any plan of unification will be entirely without danger to the public interest? The suggestions which I have offered are definite enough to form the basis of a contract which would readily be arrived at by negotiation between authorized representatives of the Government and of the Canadian Pacific Railway Company. When, as I hope, these conferences are undertaken, further details of the arrangement will undoubtedly arise for examination and will be dealt with as they appear. I do not see how I can make a more specific suggestion except as the result of such conferences.

Obviously, no formal contract can be arranged until the conferees have reported to their principals. Those acting on behalf of the Canadian Pacific Railway must obtain the authority of its owners, and the representatives of the Government must receive approval of the responsible Government of the day. The suggestion that any arrangement could be entered into on such a basis as would not be in the public interest is, I submit, merely an assumption that our system of democratic and responsible government is not functioning.

The advantages of unification are apparent. They would include, first: Considerable relief for the Treasury of the nation. It is true that we could scarcely expect unification to relieve the Treasury of all its burdens arising from the present railway situation. Only in the event of a radical change in world and Canadian economic conditions could this occur. However, I am convinced that the relief which could be afforded would be most important.

Second, unification would permit the Canadian Pacific to earn a fair return on prudently invested capital, and I am confident that I do not need to impress upon you the importance of this to the nation, as well as to the investors themselves.

Third, the savings of unification would leave both railway companies in a better position to carry on the inevitable process of remodelling, modernizing and improving the railway services of the Dominion. As a railway man I can assure you that we must continue to deal with this task extensively and that, in

present circumstances, the efforts of both railway companies are hampered.

In the fourth place, unification, by stabilizing the railway industry, aids in freeing us from the now imminent danger of forced abandonment of light traffic lines to an increasing extent. So much has been said of the mileage to be abandoned under unification that I should like to remind you that both railway systems are increasingly pressed, by financial exigencies, to search for opportunities for line abandonment, and that, despite certain difficulties in obtaining permission for these abandonments, they are becoming inevitable. I am afraid—I much regret to say it—that there are many established communities in Canada which will not be able to obtain regular railway service in the future unless something be done to free both railway companies from their present financial stresses.

Fifthly, unification will permit the stabilization, on what I hope will be a lasting foundation, of the employment of railway workers. At present this large body of our citizens is engaged in an industry which is in an unsound economic position. For the moment the Government may be able to maintain the present situation by the providing of large sums annually for railway deficits. This cannot continue indefinitely, and I am honest in saying that no one can be a better friend of railway workers than the man who urges that the industry on which their livelihood depends should be rescued from a condition of insolvency.

On this point, I may say that I am not alarmed over the outlook for the Canadian Pacific Railway. By stringent economy that Company has been able to survive the stresses of recent years, and I look forward with confidence to its future.

There are other incidental advantages which are not without importance. Certainly, I feel assured that all members of the national legislature would welcome the removal of railway transportation from the political field. Another advantage is that the unified system would be in a position to meet the competition of other forms of transport with an efficiency which would be much greater than at present.

THE ESTIMATES OF SAVINGS:

Naturally, much interest is displayed in the accuracy of the various estimates of savings which have been offered. In my own case, I have repeatedly quoted the fact that a Committee of Canadian Pacific officers, after an exhaustive study, concluded that, given conditions similar to those of 1930, annual

savings of \$75,300,000 could be realized by the unified railways.

I have been prepared to accept the substantial accuracy of this estimate, in view of the extent of unnecessary duplication of railway services. Your Committee, however, may desire some account of the basis and methods used for this calculation, and, without being too technical, I shall endeavour to explain the origin of the figures. Estimates of savings were submitted by both the Canadian Pacific and the Canadian National Railways as the result of requests to them of the Royal Commission. Three estimates were made—\$75,300,000 by the Canadian Pacific, based on 1930; \$50,340,000 by the Canadian National, based on 1931—practically the level of traffic in 1937, and \$56,440,000 by the Canadian National on a year of normal traffic, which was taken as 30% above 1931, or practically the level of traffic in 1930.

I should like to explain to your Committee the precise procedure followed in making the estimate offered by the Canadian Pacific Railway.

When the Royal Commission requested that the Canadian Pacific exhibit in money its estimate of the amount of railway duplication, I arranged for a committee of our officers from the operating, engineering, traffic, mechanical and accounting departments to convene and to prepare an answer to the Commission's request.

They surveyed the existing supervisory organizations of the two railways as independent units, and the probable organization of a railway as unified; the location and function of the various lines of railway; the passenger and freight train services; and the terminal and shop facilities. Each phase was assigned to officers qualified to deal with it. When information covering a special problem was not available, the senior officer in the territory affected was consulted. In other words, the resources of the entire organization were used by the committee in its work. The committee understood they were not trying to determine the maximum limit of savings, but only what could reasonably be expected under normal conditions.

In addition to savings resulting from unification of actual operations, there are other advantages. Account must be taken also of the saving in future capital expenditures. In providing for the normal growth of traffic and changes in its character, the extension of one plant would obviously cost less than the extension of two. This consideration would apply throughout the entire scheme of additions and betterments necessary to adapt the system from time to time to the use of new machinery and methods. I regard this as

a most important element in unification, and one involving a very large item of saving.

As has already been pointed out, our estimate was offered with two prepared by the Canadian National Railways. One of those was a figure of \$56,440,000, based on a year in which traffic would be 30% above the volume of 1931. This is a little over the level of traffic in 1930, and it is, therefore, reasonable to compare the Canadian Pacific figure of \$75,300,000 with the Canadian National estimate of \$56,440,000.

Close examination of the two estimates shows that both included economies from reduction in general overhead expenses, traffic solicitation, advertising and regional supervision; from line abandonments; from re-routing of traffic; from increased car and train loading; from consolidation of repair work; from readjustment of passenger train services; from operating joint freight and passenger terminals; from consolidating express and telegraph services; from reduction in accounting, and other expenses. Individual items appear in each estimate which are not in the other, but, considering that two quite different methods were followed in compiling the estimates the close similarity in result is unquestionable proof that, at the time of the Royal Commission, responsible officers of both Companies were in general agreement that the savings to be had were substantial.

It is only proper to point out that the Canadian National officers, in presenting their estimates, which were stated to be based on the experience gained from consolidation of the properties of the Canadian National, expressed the opinion that, lacking the stimulus of competition with another system, the amount of the estimated economies was to a certain degree questionable, and that the economies as planned might meet with opposition from the public and employees. For my part, while recognizing these problems, I felt and still feel that the necessities of the case require action, and that the estimated economies can, if wisely and gradually carried out, be achieved without injuring the shipping public, the communities involved or the railway employees. In an address in 1926, I drew attention to these difficulties but, in view of events since then, I am certain that there is no option but to unify the systems. Evidence of experienced railway officers on this point will be available if your Committee desires to hear it.

There are those who admit that, at the time of the Royal Commission hearing, the estimates were sound, but argue that since then savings have been made by both railway companies on such a scale that the economies estimated in 1932 could no longer be made.

This argument reflects some misunderstanding of the case. The estimates of 1932 were prepared to show the savings which could be secured by joint action only, not the economies which could be carried out by each railway independently, and are, therefore, just as valid today as then. Of course, it is admitted that improvements in railway technique have altered the situation to some extent, but there are only two new or important factors which might alter the amount of savings—(a) co-operative savings secured by joint action, which, including projects in effect and agreed upon, total \$1,771,000 per annum, and (b) variation in amount of duplication which changes with the traffic volume. As to the latter, estimates were for a normal year, taken as 1930, and are, therefore, still the estimates which should be considered. In 1938 they would be less, but in a year of greater traffic than 1930 they would be more. As a basic year, 1930 may still be considered as a fair average. Those who invite us to await an early return to traffic at the level of 1927 or 1928 as normal must admit that estimates on the lower level of 1930 are reasonable and conservative.

I will not try, at this time, to take you through my evidence before the Royal Commission or the mass of detail which the work of the Canadian Pacific committee entailed. The conclusion reached is not to be taken as a precise amount for which a definite plan of action has been worked out, but as the considered judgment of a group of responsible officers as to the level of probable savings. With the Royal Commission I stressed that some things were probably included in the estimate which, in practice, would not be realized, but that, on the other hand, many known items of savings were not included, because it had not been practical to put a value on them, though they were certain to be secured. The character of these savings will be indicated to you. The Committee's conclusions were for the information of a Royal Commission; the task was seriously undertaken and capably discharged, and its results can be accepted as a reasonable and conservative conclusion by men accustomed to deal with the problems which would be involved when adopting the plan of unification. It is an estimate which supports the case for unification, but is not the only argument.

An item of the estimate, which has only moderate importance, insofar as amount of saving is concerned, but has provoked most of the discussion, is that of line abandonment, and it is desirable that this be seen in its proper perspective. It is only one of perhaps twenty general items considered. The Commission had asked both railways what mileages they thought could be abandoned if the

railways were operated as a unit. It was natural that each railway should include in its estimate the savings from the line abandonments about which the Commission had enquired. The Canadian Pacific had estimated total maintenance of way savings of \$14,888,000; examination of the estimate shows that only a portion of these savings would arise from the fact that duplication could be eliminated in respect of approximately 5,000 miles, from which maintenance savings would be about \$7,000,000, or about \$1,400 per mile. This compares with average maintenance expenditures per mile of line in 1930 of Canadian Pacific of \$1,672 and of Canadian National \$2,028. The Canadian National estimated abandonments of 2,434 miles. It is not vital to the question, whether we carry out line abandonments on the general scale I had indicated, or on the scale of the plan put forward by the Canadian National. Where two duplicate main lines are involved, if it were decided not to abandon either, undoubtedly much of the economy could be secured by altering the standard of maintenance of one, and avoiding its future improvement. The Board of Railway Commissioners now protects the public interest in connection with line abandonment, and it is futile to attempt to anticipate their specific action.

One further point: We have the interesting fact that the Royal Commission was informed that from \$30,000,000 to \$35,000,000 per annum could be saved by measures of compulsory co-operation. This may well have been one of the most important factors in leading the Commission to recommend that compulsory co-operation should first be tried. Later, I shall offer some reasons for the failure of co-operation to provide an adequate solution of the problem, but, at this point, I may say that, since co-operation, carried to the extent where it would afford important savings, would have to employ many of the same measures taken for this purpose under unification, an estimate of \$35,000,000 to be saved by co-operation is fairly good evidence that much more could be saved by complete unification. As shown by the evidence before the Commission, the estimated savings of \$30,000,000 to \$35,000,000 per annum did not take into consideration the economies to be obtained by dispensing with duplicate executive, supervisory, soliciting, accounting and engineering staffs, and by carrying out complete pooling of freight express and other services and facilities, as would be possible under complete unification.

I assume that your Honourable Committee will wish to explore this subject more fully, and, when you so desire, I shall be glad to offer a detailed explanation of our estimate,

and to have available officers of the Company who have an intimate knowledge of the subject to appear before you and give evidence in support of the methods followed and the bona fides of the result.

I have never hesitated to use the 1930 basis for the reason that the process of unification will take some years. I think that your Honourable Committee will agree that we may hope for conditions in which the volume of traffic of 1930 may be attained again by the time that unification becomes wholly effective. Indeed, I am afraid that, if this hope is vain, more serious measures than unification may have to be contemplated to solve the nation's transportation problem.

NO OTHER SOLUTION OFFERED:

One fact which interests me is that, up to the present time, there has been no alternative offered to unification—except co-operation. The plan suggested in the Senate Committee Report of 1925 was unification. The nearest thing to an alternative which is offered is that we should possess our souls in patience and wait for the return of such prosperity as to eliminate railway deficits.

On that point I have only one thing to say—that this is the same prophecy which, commencing with the Drayton-Acworth Report recommending that the Government should take over the railways which now constitute the Canadian National Railways, has been used by everyone who has opposed constructive action to solve the railway problem.

In recommending the amalgamation of the Canadian Northern, Grand Trunk, Grand Trunk Pacific, and Canadian Government Railways in 1917, the Drayton-Acworth Commission stated:

"If then we take as a starting point a deficiency of roughly \$12,500,000 a year . . . ; if we assume that this will not seriously increase for the next year or two, but will not, on the other hand, diminish, . . . then in order to reach a position of solvency, the Dominion Railways would need to earn an additional gross income of some \$50,000,000, and to retain one-quarter of that amount as net. The present gross income is well over \$100,000,000; and it is not unreasonably sanguine to hope that it may increase 50 per cent in the course of six or seven years, if Canada continues to progress at a normal rate."

Five years later, in 1922, gross income had more than doubled, but the deficit had increased more than fourfold to \$58,000,000. In spite of this, optimists still said "that sufficient traffic to sustain the National System can be developed within a reasonable period of

normal progress." In 1926, when revenues had increased to \$270,000,000, there was still a deficit of approximately \$30,000,000, but the statement was made that "the C.N.R. was rapidly approaching the day when it would cease to be a burden upon the Canadian people." Much happened between 1926 and 1932; in one year the revenues were almost three times greater than in 1917, but even then the deficit was nearly \$30,000,000. In 1932, the deficit was almost as great as the gross earnings in 1917, but the assertion is repeated that: "If we were today on a normal trend of gross earnings, we would be earning an amount sufficient to pay interest on all the securities in the hands of the public." It will be noted that this forecast did not take into account interest on the Government's advances to the Railways.

In 1935, it was said that: "It is not fewer miles of track, but more freight that is the solution of Canada's railway problem" and in 1937 that "the solution of Canada's railway problem is not to be found in cutting operating costs further, but in building up traffic, and obtaining reasonable rates for that traffic by regulation."

I have always felt that the problem should be dealt with on the basis of the actual existing situation. In view of the failure of these forecasts to materialize, I suggest that we approach the problem with greater regard to reality.

THE DIFFICULTIES OF CO-OPERATION:

The suggestion has been made quite frequently that, since unification of the railways would involve certain consequences which many of our citizens believe to be dangerous or objectionable, it is the duty of the railways to explain why the method of co-operation laid down in the Canadian National-Canadian Pacific Act of 1933 has not been used more extensively than has been the case.

Your Committee has already reviewed the whole process of compulsory co-operation, as recommended by the Royal Commission, and made mandatory by the Canadian National-Canadian Pacific Act of 1933. You are aware that many co-operative projects have been examined, and some accepted by both railway companies, and put into effect.

In addition certain projects have been studied, and abandoned owing to belief, on the part of the representatives of both of the railway companies, that they were not economically desirable.

Yet other projects have been favourably reported upon and approved, but are not yet in effect, and others are under study, or are listed for consideration.

Besides these operations of the Joint Co-operative Committee, the railways agreed to consider the unification of express and telegraph services, but, on presentation to Parliament of the empowering legislation, objections were raised, and the Government withdrew the bills.

Recently, by direct negotiation under the authority of the Act, it has been possible to arrive at an arrangement to meet the situation produced at Vancouver by the construction there of a new hotel.

In no case, has either of the railways invoked the right to ask for the appointment of a tribunal to deal with any project on which agreement had been found impossible.

I can assure you that the Canadian Pacific Railway has taken its obligations under the Act seriously, and I must assume that the attitude of the Canadian National Railways has been identical. Thus, in view of the comparatively small savings accomplished by co-operation under the provisions of the Act, I believe that I am right in saying that there must be something wrong with the system—not with its execution, even though that has been disappointingly slow.

It is not surprising to me that this should be the case. Co-operation and competition scarcely seem suitable bedfellows. Co-operation and compulsion seem almost less suited for companionship. It is a fact that the two great railway systems in this country are competing for business, and it is inevitable that, in any attempt to unify their services piecemeal, there will be certain difficulties. I should like to point out how these make co-operation an unsatisfactory substitute for unification.

Co-operation, under the Act, is to be carried out by two competing companies which retain their independent operating organizations. Unification, as the term is here used, is a plan by which the properties and services of the two railways, on such detailed terms as may later be arranged, will be entrusted to a single operating organization. As has been said, the plan, as now suggested, leaves ownership of the properties in its present hands and contemplates joint operation for joint interest. The distinction between these plans, in their effect on efforts to eliminate duplication, is an essential one.

Unification is a general plan which, once adopted in principle at the executive centre, is then carried out throughout the railway system. Co-operation is an attempt to build up individual projects of unification, each of which must, in the end, come to the executive for approval.

Whenever a measure of co-operation is studied, it is discovered that one of the difficulties in obtaining from it all the savings

possible is that to do this would require the consolidation of other services or facilities. For example, wherever train services are pooled, one of the limits to the advantage to be gained is that the new pooled service will still have to use yard and shop facilities which have not been pooled. In some cases this actually prevents the completion of an otherwise desirable project; in other cases it means that the limited pooling which is finally adopted does not accomplish all the savings which it might.

Unification, on the contrary, starts with the assumption that all possible savings are to be made, within the limits of the plan as finally adopted. Therefore, it does not matter whether you start by trying to pool shops or by pooling train services. At whatever point it is discovered that any difficulty is presented to the pooling of one service by the fact that another type of service is not pooled, this can at once be overcome. All the savings which are possible of attainment not only become automatically apparent, but are more easily realized.

In addition, the officers engaged in a process of unification would have no limit to their activities except the rules of business, the terms of the unification contract, and the provisions of the statute authorizing such unification. The officers engaged in attempts at limited and piecemeal co-operation necessarily find their hands tied by the obligation that nothing which they do may interfere with the maintenance of a sound competitive position for the system which employs them.

To take a case: To instruct the officers of the two companies to co-operate in routing trains into one or other station will accomplish minor savings. They must keep in mind, at all times, that this routing may, in the case of terminals or junctions, decidedly affect the probable choice by passengers of the route to be followed for further travel, beyond the territorial limits of the co-operative project under discussion. It must be clear how serious a limitation this is to intelligent co-operation, when you compare it with general instructions to officers to remove duplicate routes of travel, and all the facilities which exist for them.

The failure of either of the railway companies to request the appointment of a tribunal to complete a detailed item of co-operation on which agreement was not reached is quite natural. The officers of the two systems are in constant and daily contact, on many points. They are quite accustomed to reaching agreement. They should be able to avoid the application of compulsion to force a friendly competitor into an agreement which he dislikes. Finally, as each railway has, in the discussions leading up to an impasse,

made all the concessions which its officers consider intelligent and businesslike, neither one should have any desire to risk the imposition of additional disadvantages—such as must result, to one or other of the parties to the discussion, from any conceivable report of a tribunal. This could only magnify the difficulties of co-operation owing to the fact that the parties would constantly fear the establishment of adverse precedents. It would involve something in the nature of contentious litigation which would not create an atmosphere favourable to cordial and effective co-operation.

In the end, the paradox develops that, the more successful our attempts to unify properties and services by co-operation, the more impossible would be the condition which we attained. We should ultimately reach a point at which the great majority of our train services throughout the country would be run in common over commonly operated lines. We should have the extraordinary spectacle of two staffs of railway workers engaged in joint operation of a railway system, and supervised by two separate head offices and official staffs.

We might have the picture of two groups of salesmen engaged in competing with each other to obtain passenger and freight traffic to be carried on the same trains.

CO-OPERATION OR UNIFICATION.

We are warned that the objections to unification, as I have suggested it, are very grave. Let me examine them, one by one, and consider how co-operation would meet them.

There is first the objection that unification would create a transportation system beyond the ability of one Board of Directors and one management to conduct successfully. I disagree with this—but consider how co-operation would affect this aspect of the problem. Co-operation, carried to the extent where it became a valuable method of reducing expense, would create very substantially a unified railway system, but one not operated by one Board of Directors and one management, but by two Boards and two managements. I think that your Honourable Committee will realize that if it is impossible for one administration to conduct successfully the railway transportation of all Canada by means of one unified system of railways, it will be somewhat more difficult for two administrations to do it simultaneously and in co-operation.

The second general objection is that we should create by unification a monopoly under which the interests of the shipper and traveller would be neglected. It is my clear impression that to set up what might be called a dual

monopoly, operating the same railway system, would not avoid this danger, but would, by its divided responsibility, make inefficient railway service the standard in this country, and produce unnecessarily high charges or reduced standards of service.

The next objection is that unification might deprive communities in Canada of railway services. To the extent to which co-operation was parallel in its effect to unification, this would also be the case. The disadvantage would be that, to some extent, co-operation would not be—even in its most complete form—entire unification. Thus, the co-operating railways would not be able to use as many methods of adjusting their services to the needs of various communities and localities as a unified railway system could.

When we come to consider the effect on the interest of railway workers of these two alternative methods of arriving at the same general condition, I may point out that the maintenance of separate managements, and the limitations of co-operation as compared with unification would render impossible the full and satisfactory application of those long term and complete measures of protecting the interest of railway workers, which, in my opinion, must and will be employed under an intelligent and businesslike method of unification.

Indeed, it is clear that those railway workers who have been encouraged to believe that safety for labour will better be obtained under the present system than under rationalization of the industry in which they are engaged are already noting that co-operation is no more, should it ever be possible to carry it out on a major scale, than unification in disguise, retaining all the supervisory officers in service, and making the personnel savings entirely among workers. For example, the *Saskatoon Star Phoenix* of March 28th, 1938, reports that, at a meeting of the Saskatoon Joint Council of Railway Unions, repeal of the Canadian National-Canadian Pacific Act was demanded. It must be clear that co-operation, to the degree that it might be made effective, would have the same result as unified management in respect of displacement of labour. It would, carried to the extent which its advocates suggest as possible, affect the interests of labour almost as much as unification. In my opinion, it would do this without permitting the use of proper precautions and remedial measures. Under co-operation, adjustments made for the benefit of labour have to be dealt with according to the effect of each individual co-operative measure. In this way, there is lacking the general advantage of arrangements which, under unified management, might be made by agreement between representatives of the

railways and representatives of the employees.

There would, of course, be one advantage—in your Committee believe it to be an advantage—in co-operation: The nominal independence of the two railway systems would be maintained. It would not be a real independence—for it is as difficult to “unscramble” physically a piece of railway track, a railway service, or a railway terminal, which has been placed in joint use by co-operation, as it is to perform the same service for one which has been brought under unified management.

The actual effect under co-operation would be that the head offices and supervisory staffs of the two railway systems would retain their independent existence. Railway workers throughout the country in train service, in freight sheds, in shops, and on track maintenance, would find their numbers reduced by co-operation—as by unification. The more successful the co-operation, the closer its results would approximate those of unification. The more highly paid officers and employees, however, would not be affected, and would remain in independent units to exercise joint direction of the diminished staff of railway workers.

The Canadian Pacific Railway has been at all times willing and eager to arrange co-operative measures. The difficulty has been to find the places where they would be effected. Our willingness should be obvious in view of the fact that the \$1,135,000, which represents the net annual savings by co-operative measures so far put into effect, amounts to 30% of the former cost, to the two companies, of the operations affected. Savings at this rate are decidedly attractive, and no devotion to a better plan would prevent the Canadian Pacific Railway from carrying co-operation to its practicable limit. Believing, as the officers of that Company do, in the inevitability of final and general consolidation of the business of the two railways, it must be evident that they would have no disposition to block partial measures where these can be arranged.

MONOPOLY:

One objection often made to unification is that it would produce a monopoly of transportation which might be used to the disadvantage of the public. That a monopoly would be created, within the comparatively narrow field of railway service, is quite true. On the other hand, it must be remembered that monopolies of railway transportation are not infrequent in Canada at present.

The Canadian Pacific possesses a rather complete monopoly in the Kootenay district of British Columbia; in Southern Alberta and

Southwestern Saskatchewan. The Canadian National possesses a complete monopoly between Edmonton and Prince Rupert; Edmonton and Kamloops; in much of Northern Saskatchewan and Manitoba; in the territory between Winnipeg and Quebec; in the Lake St. John district of Quebec; in the Northern portion of New Brunswick and Nova Scotia; and in the Province of Prince Edward Island. The Canadian Pacific monopolizes railway transportation in an area South of the Canadian National transcontinental lines from Nipigon as far as Sudbury; in the territory between Sudbury and Sault Ste. Marie; between Sherbrooke and Saint John, N.B., on the so-called “Short Line,” and in Southwestern Nova Scotia. These are examples of fairly complete monopoly. In the areas in question, while through traffic may be competitive in type, local traffic is absolutely non-competitive. Neither the charges nor the standard of service in these areas can be affected in the least by competition between Canadian railways. It is impossible, for example, for anything which the Canadian Pacific does to affect the cost or comfort of a passenger travelling from Edmonton to Prince Rupert; or for anything that the Canadian National does to affect the fortunes of the traveller or shipper between Lethbridge and Calgary. The Canadian Pacific has absolutely no influence on the charges or standards of service on the Canadian National between Cochrane and Quebec. The Temiskaming and Northern Ontario Railway has an absolute monopoly of service in a large and important area of Northern Ontario. Yet, the charges and standards of service of these railways in the areas mentioned are on the same basis as similar charges and standards in areas where competition is fully developed.

FREIGHT RATES:

As a matter of fact, any idea that the existence of two railways affects freight rates by keeping them low should be fairly well exploded by the fact that, many years ago, a political agitation against the charges for the transportation of grain on the Canadian Pacific in Western Canada was used as a powerful lever to obtain governmental subsidies for rival private interests in connection with the construction of the Canadian Northern Railways. It was freely alleged that the Canadian Pacific was robbing the farmers of Western Canada, and the promoters of the Canadian Northern Railway promised great things in the way of lower transportation charges. It is undeniable that a temporary lowering of these charges was forced on the Canadian Pacific Railway at that time. The effect on rates was of a passing nature. The

railway which was to force Canadian Pacific charges down became bankrupt; passed into the hands of the Government, and is now a part of the Canadian National System. The rate of charges so established proved too low to support the later Grand Trunk Pacific, and, today, the Canadian Pacific is the only solvent one of these companies. Further, the coming of the War, and the alteration in economic conditions which resulted, ended in a condition in which the undertaking of the Canadian Northern to maintain a certain level of grain rates became impossible of performance, and, when the grain rates were settled, on their present basis, no consideration was given to these forgotten passages of history.

Perhaps the best evidence that it is not the existence of two railways that guarantees low freight rates, can be drawn from a statement by an officer of the Canadian National System. In evidence before the Royal Commission, there is quoted a statement by an official of the Canadian National, in attempting to set up some alternative to unification, stating that "the situation calls for a courageous facing of facts, provision of rates high enough to pay the cost of services; equitably distributed and free from statutory limitations."

This would, of course, be one way of attempting to solve the railway problem, but not, in my opinion, the correct one. It does not appear to me desirable to attempt to increase the cost of transportation in Canada in order to maintain unnecessary duplicate railway services. My own preference is always in the direction of trying to eliminate waste, in order to give the public the cheapest possible service. Freight rates may, from time to time, have to be increased in order to meet changes in general economic conditions, but, as far as I know, it is possible to solve the railway problem by other methods than those recommended by the official in question. In any event it is reasonably apparent that the elimination of the Canadian National as a separately operated system would not reduce the tendency to increased freight rates.

Freight and passenger rates in Canada are not set by the railway companies in competition with each other. They are—and this is very fortunate for the people of Canada—set by the railways, openly in an endeavour to keep rates adjusted to the economic needs of the nation.

Freight rates in the main are kept low by a highly concentrated effort of railway managements to deal intelligently and consistently with a difficult problem. They are, in Canada, as low as they are in any major country in the world, and far lower than in all countries

except the United States which compete with us for markets abroad. For example, the average rate for carrying a bushel of grain an average distance of 750 miles from point of production to water navigation is less than 13c. in Canada. My information indicates a rate of 11.74c. for a haul of 144 miles in the Argentine Republic, and 8c. for a haul of 88 miles in Australia.

This is an entirely natural state of affairs, since Canadian grain must be delivered in the markets of the world in competition with the grain of other countries, and the Canadian railways must, therefore, make such charges for their proportion of the transportation and handling as, combined with ruling ocean rates and very low charges for elevation and other handling, will permit this object to be attained. Since rail haul is, in the case of Canada, a far more important portion of the journey than in Australia or the Argentine Republic Canadian rail rates on grain must rule much lower than is the case in these competing countries.

That is typical of the influences which really set Canadian railway rates. It is true, of course, in the particular case of grain rates, that their establishment on a statutory basis makes them comparatively inflexible, by preventing their increase when the traffic would bear such an increase, and thus, in compensation, preventing their lowering, when the traffic finds it difficult to bear the existing charges.

As a consequence of the method of approach to the rate situation above described, the Canadian railways, without compulsion, and in an endeavour to protect their traffic, between January 1st, 1930, and June 30th, 1934, reduced over 100 individual rates for each one which was increased.

STANDARDS OF SERVICE:

The same thing is largely true of standards of service. For example, when air-conditioning was applied to Canadian railway travel, this was recognized by railway companies as involving additional cost without any increase in passenger fares. Since the Canadian railways operate on the Continent of North America, their passenger service must be generally of the standards accepted on this Continent. Thus, when air-conditioning became general in the United States, it was inevitable that it would be adopted for long distance travel in Canada. Neither competition between the Canadian railway companies nor an order of the Board of Railway Commissioners was needed to effect this important change in the standards of railway service.

COMPETITIVE FACTORS:

After all, it is quite reasonable that this condition should prevail. The volume of railway shipment and railway travel is exposed to possible limitation from two factors among others. One is the competition from other forms of transportation. The subsidized highway transportation of this country has diverted from the railways a mass of passenger business—which now uses private motor cars, and, to a less extent, buses. It has taken away an amount of commercial freight traffic which cannot be assessed exactly. It is even more difficult to obtain figures showing the competitive effect of our great waterways. Impossible as it is to weigh precisely the effect of these forms of competition in diverting traffic from the railways, I am sure that you will realize that it is important. In addition, the Panama Canal has created a situation in which the railways find it necessary—in order to hold their transcontinental freight business—to maintain a structure of rates for this type of traffic which is out of keeping with the normal structure. When you hear, for example, that it is possible to ship goods to Vancouver from Montreal cheaper than it is to ship the same goods to Edmonton, you might remember that this is not by any desire of the railways, but because extraneous competition forces them to do it, and that one of the reasons why no downward adjustment can be made in rates not affected by highway and waterway competition is that these forms of competition have carried many other rates to a point much lower than they need or should be.

The other factor which tends to keep railway rates low is one generally forgotten. While people travel or ship goods because they desire to travel or ship goods, they can neither travel nor ship goods if the rates are too high. Thus, the one object of every railway traffic executive is to keep rates as low as is commensurate with the needs of revenue, and low enough to enable people to travel freely and to ship goods freely. When times are hard and prices low, railway rates must be kept down. In better times, they may be allowed to rise a little. If, at any time, they rise too much, business dries up.

PUBLIC CONTROL:

It should be clearly understood that I am not suggesting that the Board of Railway Commissioners has no valuable functions. It is my opinion that public utilities of a semi-monopolistic type should, at all times, be subject, in charges and standards of service, to the orders of a tribunal which can prevent exploitation of the public or neglect of its interests. I have, indeed, repeatedly suggested

that the powers of the Board should be extended wherever this appears necessary.

May I point out in addition that a necessary condition of unification is that the Canadian Government will continue to own the Canadian National Railways? That carries with it the assumption of increased effect of the public will on the policies of both the railway systems. If the railways undertake experiments in monopolistic oppression of the people, then, under unification, this would have to be with the consent of the Government. I may enquire of your Honourable Committee whether it would be your intention to permit monopolistic abuse of the public interest by the unified railway system, or whether you have the least doubt of your ability to prevent it.

Monopoly is a word which has a sinister significance in the minds of many people. In this case it is an argument obviously designed to frighten the public, but it loses much of its terror when it is considered that in this instance monopoly will be strictly regulated by public authority; that public opinion itself is a more potent influence in the conduct of large operations than ever before, and that the attitude of railway officers towards their public responsibility is drastically different from that of fifteen or twenty years ago. These factors, combined with the heavy losses of the past twelve years due to the maintenance of competitive systems, must be given serious weight in appraising former objections to unification.

LABOUR UNDER UNIFICATION:

Perhaps the most important objection made to unification is the possibility that it might affect unfavourably the interests of Canadian railway workers. I believe that this question must be examined very thoroughly, but that by such examination it will be discovered that the fears expressed by the opponents of unification have no real foundation.

Unified management can only be made valuable by methods which will ultimately involve a reduction in the amount of labour employed by the railways, and it is not surprising that not only railway workers themselves, but all good citizens, express a keen desire to have the incidence of the reduction in employment under unification set out in some detail for public consideration.

The whole progress of modern civilization has sprung from the desire to save labour. Every machine which has ever been invented has been an attempt to save wasted labour, and put it to useful occupations. On the other hand, since the chief economies of unification are ultimately to be made by saving labour, it is certainly my duty to explain as carefully as possible what will happen to labour under it.

In the first place, I may point out the arithmetical fact that the annual turnover of railway labour on the Canadian Pacific is almost 5%. Each year almost 5% of our employees die, retire, seek other employment, or leave the service for other reasons. The total savings of labour under unification are estimated at 15% to 17%. Thus, assuming that the labour situation on the Canadian National System is approximately the same as on the Canadian Pacific, we can see that, in the five years, at least, which will be required to accomplish unification, a policy of not hiring additional workers would reduce the staffs of the two railway systems more than the savings of unification would involve.

I can illustrate the labour situation in another fashion; More than 20% of the present employees of the Canadian Pacific Railway have five years' or less service. That is, were we to attempt the impossible, and to make all labour savings under unification overnight, the number of employees displaced would be no greater than that of our men with five years' service or less.

It would be dishonest on my part, however, to pretend that these simple facts offer a complete answer to those who fear the minor and temporary consequences to labour of a policy of rationalizing our railway situation.

It is true that more railway workers will leave the service in the time required for unification than would be necessary to accomplish the estimated saving. This is, however, not the same thing as saying that no one will lose employment. The fact that, for example, a locomotive engineer retires does not necessarily open an immediate opportunity for the employment of an accountant or a freight checker who can be dispensed with as a result of unification. There are, however, certain compensating facts. One is that we should have available the entire employment opportunities of the two railways. That is, under unification, the transfer to useful employment of labour saved will be easier than is the case with two independent systems.

I do not think that we should fail to realize that Canadian railway employment has been on a generous and well paid basis. For example, comparing conditions in this country with those in the United States, I find that, while the number of railway employees in Canada was for 1936 14.5% below the figure of 1916, the corresponding decrease on the Class I roads in the United States was 35.3%. I find also that in Canada, for each unit of operating revenue, the railways employ over 40% more workers than do the Class I railroads of the United States. To some extent this condition results from the difference in underlying economic conditions in the two

countries, such as density of population and traffic, proportion of lines of light traffic, types of traffic, and the effects of highway and waterway competition. The figures which I have quoted, however, will indicate quite clearly that Canadian railway management has not overdone labour saving.

In fact, the relations between railway management and labour in this country have been at all times such as to lead me to say with certainty that any conceivable management of the unified system will deal fairly with labour, and I am confident that, where every effort fails, and any man loses employment, public opinion will support the management of the unified system in providing equitable compensation to assist those displaced in becoming re-established in other employment.

I should like very much to be able to offer some definite promise concerning the extent of this compensation, but I think you will see the difficulties which lie in the way of an *ex parte* statement of this sort—especially at this stage of the discussion. It would not be honest for me to pretend that I can commit the Government—the representatives of the owners of the Canadian National—to a fixed labour policy. For my part, I could not consent to any plan of unification which did not include adequate provision of this nature.

There are precedents elsewhere for the application of measures to prevent labour savings under railway unification becoming oppressive to labour. The railways of the United Kingdom, in the process of amalgamation, agreed to measures for the protection of their staffs during the period of transition. It is well known that these plans worked well, and that, generally speaking, it was possible to hold labour savings under amalgamation down to the rate set by natural turnover.

As you know, in the United States also provision has been made to protect the interest of employees where measures of co-ordination are undertaken, and, in May, 1936, a specific agreement was arrived at between all the important railway companies and the representatives of railway workers. That agreement provides for compensation to employees displaced as a result of co-ordination measures.

I cannot say that it would be possible to apply precisely similar measures in Canada, since conditions in the three countries vary considerably. Nor can I venture to pledge both the Canadian railway systems to a specific labour policy after unification. I can say that any management of a unified railway system in Canada is certain to do its best to adopt the best features of both these systems—for anything else would be entirely contrary to the spirit which has ruled in the labour policies of Canadian railways in the past.

I believe that the effect of unification on labour and its interests has been genuinely misunderstood, and that once the facts of the case are known, it will cease to be possible for the opponents of railway rationalization to use this particular bogey.

If credence were given to the picture of unification as it is sometimes painted, your Honourable Committee might expect to see great numbers of railway workers thrown into the street as soon as agreement was reached for unification. That is not correct.

A study of the probable effect upon employment of the estimated economies under unified management as compared with the natural attrition of labour indicates that many more openings will be created for employment by the annual attrition withdrawals from service than there will be employees displaced under unified management arrangements to fill the positions. Let us assume that the estimated economies under unified management could proceed at the rate of 25% for each of the first two years, 20% in the third year, 15% in each of the fourth and fifth years. On this basis and with the known fact that railway labour turnover is about 5% per annum, even if we succeeded in five years in reducing our annual labour costs as much as 17% the railways would require to engage from 993 men in the first year to 2,015 in the fifth year—an average of almost 1,500 per annum—in excess of the number of employees displaced as a result of the unified management economies.

In other words, with employment at the level of 1937 there would be 22,506 positions closed in the five year period as a result of the economies, but, on the other hand, there would be 29,947 positions opened by reason of the 5% annual employment attrition, the excess being 7,441.

This is apart from any increase as a result of an improvement in traffic conditions. Should traffic volume return to the level of the year 1930, it is estimated that over 25,000 additional workers would be required as compared with the number needed with traffic volume at the level of the year 1937.

After unification is complete, of course, the full 5% of all railway posts will again be opened each year for railway workers.

I can assure you that, in any plan of unification which would be acceptable to the Canadian Pacific, proper provision for any small number of cases where it is difficult to retain present workers in the service will be made, and you may put aside the fear that labour will suffer from large scale dismissal as a result of the adoption of a plan of unification.

CONCLUSION:

I have attempted to deal with those detailed objections which have been raised to unifica-

tion. May I now deal with the subject in a somewhat broader fashion? We hear, for example, that this community fears the loss of some of its residents, that such a merchant believes that his business will be unfavourably affected, and that, after all that I have said concerning provision for labour, we must, in the end, face the fact that unification means fewer railway workers.

Is it not a fact that all of these objections are merely the objections to economic progress? When the motor car replaced the horse-drawn carriage, and the steamship put sailing craft out of commission, all of these consequences resulted. All that those who use these objections are saying is that they believe that the unwise rioters who smashed looms in England more than a century ago, because they took the place of manual workers, were sounder economists than Adam Smith.

The only reason for accepting unification is that it is in the national interest, and it is in the national interest because every measure which will reduce the cost of carrying on the vital task of transportation in Canada is in the national interest. It is in the national interest because the public finances of this country need relief, and unification will afford it. It is for these reasons that I have come to the conclusion that unification cannot be avoided.

This is not the first time that it has been sought to make important railway economies in Canada by removing duplication. After the Government acquired the systems which now constitute the Canadian National Railways, it proceeded to seek efficiency and economy by organizing them into a single operating unit. This, since it was the amalgamation of railways under the same ownership, differed radically from the programme which I am now suggesting, but it is a fact that the object of obtaining economy is the same in both cases.

I have never welcomed unification. The Canadian Pacific is a highly developed organization, and an object of pride to all its officers and employees. Under unification, it will lose its identity—and that is a real loss to those of us who have spent a lifetime in its service.

Even with the acute competition given it by what I consider has been an unwise venture of the state into the railway field, I still believe that the Canadian Pacific can survive as an independent institution. Far from eagerness, as my critics have it, to seize the publicly owned system, I feel deep regret that, only by unification, can we remove the greatest danger of which I know to the future of the nation.

In a recent public address I said that unification is inevitable. The public need compels it.

